

## Citicorp adds subsidiary

NEW YORK — Citicorp, the latest bank to set up its institutional investment unit as a subsidiary, did so because of the perception it improves a bank's capability to service its clients, said Robert G. Wade Jr.

But Mr. Wade, chief investment officer of the new firm, Citicorp Investment Management Inc., is quick to point out that most of the traditional reasons behind banks setting up investment subsidiaries do not apply to Citicorp because it has good numbers and already addressed the problem of paying professionals.

"We think it is a plus to be associated with a big bank such as Citicorp and haven't changed our name," he said of the new firm, which will manage \$21.5

billion in tax-exempt assets.

"The overriding reason was the perception in the marketplace from all the other banks setting up subsidiary investment units, Mr. Wade acknowledged.

"However, it is a lot of work to set up a subsidiary, so I decided to use it as a platform for change to improve services for the clients."

Mr. Wade has restructured the marketing apparatus of the firm, creating four major business units to deal with different sectors of the marketplace — national corporate and public funds, regional companies, specialized domestic institutions and international institutions. Each client group will operate as a separate business unit.

## Top funds . . .

Continued from page 19

existing properties between \$10 million and \$50 million in size. The fund made no purchases or sales during the first quarter. Its 10-property portfolio contained 89% office and 11% industrial. Cash reserves were 4%.

The second-highest return from a closed-end fund was reported by John Hancock Mutual Life Insurance Co.'s SERA-1 fund. It had 3.5% appreciation and 2.5% income, for a total non-annualized return of 6%.

The \$34 million SERA-1 invests in joint-venture developments and existing properties in major cities nationwide. Its portfolio is 100% residential, consisting primarily of garden-apartment developments. The fund made no purchases and no sales during the first quarter.

The third-place closed-end fund during the quarter was Coldwell

Banker Capital Management Services' Institutional Fund Series V, with a return of 4.1% composed of an appreciation component of 2% and an income component of 2.1%.

The Series V fund is invested up to 70% in existing properties, including fully built and leased properties, convertible mortgages and commitments to fund developmental properties when fully built and leased. The fund also invests directly in developmental joint ventures and does direct developments itself.

Property types include office and industrial facilities and shopping centers, ranging in size from \$1.5 million to \$20 million. Geographic concentration is in the South and Southwest.

The fund had total assets of \$82 million as of March 31. Its portfolio had seven properties. Cash reserves were 4%.

Among closed-end funds contained

in the EAI listings, the median return was 8.2%, while those in the top quartile returned 9.1% or better for the quarter ended March 31.

Many of the same funds appeared in the top positions in Pensions & Investments' Performance Evaluation Report performance data for the 12 months ended March 31. PIPER does not report quarterly data.

The top performing open-end fund in the PIPER universe during the period was the Developmental Property Account managed by Copley Real Estate Advisors, which returned 19.6% on a time-weighted basis. (See listing on page 20.)

The Copley fund, which invests primarily in joint development projects with local partners, had total assets of \$270 million at the end of the quarter, with 30% of assets in cash reserves. Its 17-property portfolio had a mix of 57% office, 15% industrial, 6% hotel and 22% land.

Second in the PIPER open-end universe for the 12-month period was Phoenix Mutual's RESA, which brought investors a 19.4% return.

NCNB's Real Estate Fund ranked third, returning 17.2% during the 12 months.

For the three-year period ended March 31, the top open-end fund was the Copley Real Estate Advisors' Developmental Property Account, which returned a compound annual 23.8%. Second was Morgan Guaranty's commingled real estate fund, which had a compound annual return of 19.7%.

Among closed-end funds, PIPER data showed Hancock's SERA 1 in top place for the 12 months ended March 31. The fund returned 24.8% on a time-weighted basis.

Second in the PIPER rankings for closed-end funds was Sarofim Trust Co.'s Sarofim Investors Realty Fund. The fund, which invests in participating mortgages, returned 22.2% during the period on total assets of \$57 million.

Placing third among closed-end funds was Coldwell Banker's Institutional Funds Series V.

The top closed-end fund for three years was JMB Institutional Realty Group Trust I with a compound annual return of 17.8%. LaSalle Advisors' Street Fund Inc. was second, with 16.7%. ■

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more a function of supply and demand than it is of inflation (Pensions & Investment Age, Aug. 19).

They say that when the economy improves, business activity will pick up and shrink the supply of office space, pushing up rental prices. This shrinking of demand, they said, could come with little inflation in the overall economy.

In the long term, the FRC index shows real estate has kept pace with the Standard & Poor's 500 stock index, from the end of 1977 to the first quarter of this year, and has surpassed the Consumer Price Index and the Shearson Lehman Government/Corporate bond index.

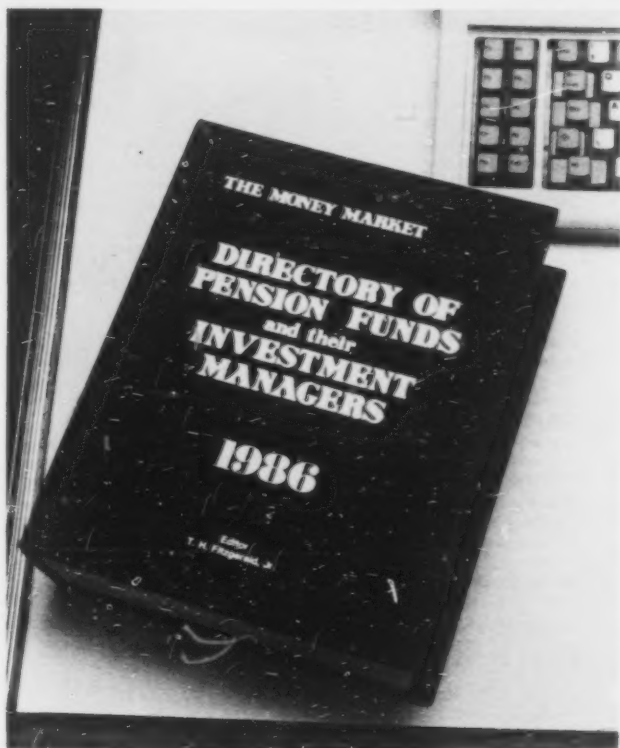
In the index, the 1 represents the value of all the properties held by NCREIF members at the end of 1977. Since then, the value of the portfolio has increased 2.7 times.

The index, which is computed by the Frank Russell Co., Tacoma, Wash., said the CPI has increased 1.7 times from the base year of 1977, and the bond index has increased 1.9 times; the S&P 500 has increased 2.7 times.

A NCREIF release stated that for the index, "The appreciation component matched the growth rate of the income component from 1980 through early 1982. Since then, (appreciation) has been growing at a much slower pace."

But, it continued, real estate has had little variation in comparison with other asset classes, with the real estate index showing a standard deviation of 0.15%. ■

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# International

## Diversification with low risk?

# Indexing catches funds' eyes

By Rose Darby

U.S. pension funds desirous of the diversification overseas investment can bring them but not of the risk it could entail, are curious about what international index funds might offer.

Freed from the confining effects of a strong U.S. dollar, international index funds could well shed their humdrum image as they emerge at the top of this year's international performance universe.

Indeed, the foreign index funds offered by American National Bank & Trust Co. of Chicago, State Street Bank & Trust Co., Boston, and Wells Fargo Investment Advisors, San Francisco, have been top-quartile performers for the first half of 1985 and for the one- and two-year periods ended June 30, according to InterSec Research Corp., Stamford, Conn.

Despite the fine performance numbers, some index funds are not adding new assets or new customers, while others are growing by leaps and bounds.

"Indexing internationally hasn't gone over big in the pension fund

community," said Charles M. Thompson, investment officer for the \$500 million Winn-Dixie Stores Inc. pension fund, Jacksonville, Fla. Winn-Dixie has an estimated \$15 million in international index funds.

"But, passively managed money in general is becoming more and more acceptable and popular, and the international area will become so, too."

The good points of having assets managed in an overseas index fund is the lower costs that go along with it, and better performance results, he explained.

One of the bad points: "Don't forget that if you have a passively managed account, you can press a button and see where you are and you don't have to go to Zurich or to Paris for a visit," he said.

Of the total Winn-Dixie Stores pension fund, roughly 30% was in equities as of Sept. 30, 1984, according to Money Market Directory. Of that, roughly 20% was allocated to international investments. Traditionally, within the equity portfolio, about 50% has been managed passively, he said. That holds true

for international as well, he added.

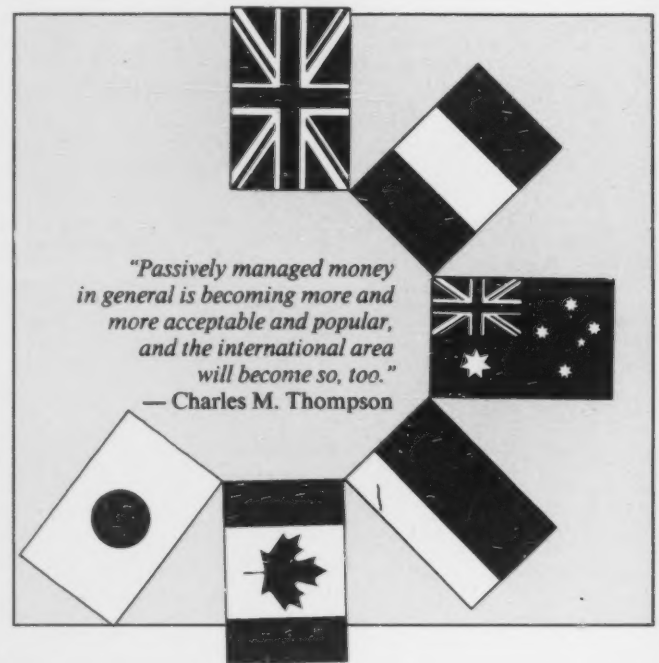
"We're extremely happy with the international index funds," said Mr. Thompson. "If I were going to put more money into international, I wouldn't hesitate putting more into international index funds as long as we kept the same proportions we have now."

Winn-Dixie Stores has funds actively managed with international managers Rowe Price-Fleming International Inc., Baltimore, and Batterymarch Financial Management, Boston.

In July, as part of an overall restructuring of equity assets, United Technologies Corp., Hartford, Conn., hired State Street Bank & Trust to run an international index fund, said Beverly Lannquist Hamilton, vice president-pension investments.

This fund, based on the Europe Australia Far East index, totals roughly one-third of the estimated \$250 million international portfolio at United Technologies.

"It's our feeling that every so often in the international market there will be a period of time, and/or subsections of the market



like the Japanese bank stocks, that will affect international results," Ms. Hamilton explained. "And, by and large, active managers often do not participate in those moves."

An additional argument for passive management in international is, "the long-term statistics of money management are not con-  
Continued on page 33

# Bond funds' returns a classy import

By Rose Darby

Overseas bond funds, buoyed by a declining dollar and lower U.S. interest rates, were far and away the top performers for the quarter ended June 30 among funds monitored by the Pensions & Investments' Performance Evaluation Report.

The rankings were drawn from 29 commingled, international or global, equity and fixed-income

funds managed by 23 banks and insurance companies.

Prudential Capital Management International's Global Bond Fund and First Chicago Investment Advisors' International Dollar Fixed Fund were the champion funds for the quarter, each with a 9% time-weighted total return.

During the early part of this year, PCM International's \$70 million fund was 70% to 75% invested in U.S. dollar-denominated bonds,

said Kenneth Windheim, international bond fund manager.

"When the dollar weakened, we went to about 60% to 75% in foreign currency issues," he said. "We divided them between deutsche marks, sterling and yen."

During the second quarter, the fund was fully invested in each of the bond markets that had been selected for participation, he added.

The outlook for the immediate future will be determined pri-

marily by the strength of the U.S. economy, Mr. Windheim said.

"If the economy remains somewhat subdued, foreign currencies will continue to rally against the dollar," he said.

To take advantage of this environment, pension fund investors should invest in global bond positions or a global bond fund, he said. "The one advantage of a global bond fund is it allows the flexibility to take advantage of the dollar's

strength or weakness."

Occupying second place for the quarter, with a time-weighted total return of 7.3%, was Aetna Montagu Asset Management, Hartford, Conn.

Since late last year, managers for that \$76 million international equity fund have been switching out of export-related issues and into domestic-related stocks in each market, especially in Japan, explained Christian Thwaites, assistant vice president and portfolio manager.

"Primarily, Japan went very right for us this quarter," he said.  
Continued on page 32

## U.K. analysts ranked

LONDON — A ranking of U.K. investment analysts, based on an annual survey of U.K. financial institutions, including insurance companies, pension funds, merchant banks, investment managers and mutual funds, places James Capel & Co. at the top of the list as the best research firm, according to Exel Financial & Business Services Ltd., which conducted the survey.

Phillips & Drew was voted second best in overall value of research product and analysts.

This year's survey drew responses from 130 investment managers with combined assets under management of 180 billion pounds sterling, or \$252 billion.

Capel also was the top firm in the individual categories of best leisure sector analysts, best gold analysts and best mining analysts. It was named the top firm when it came to analysts for German, French and Dutch equities, according to the survey.

Phillips & Drew was voted the firm with the best analysts in gilt-edged securities, as well as fixed-interest convertible issues.

It also was named the firm with the best analysts in U.K. equity market strategy and in U.K. and international economic forecasting, according to the survey. Formerly, this annual survey was conducted

## International update



by Continental Illinois.

## Investing changes

NEW YORK — Changing economic conditions such as a decline in the U.S. dollar, volatile U.S. interest rates, falling prices for oil and mounting pressures for more stimulative economic policies in Europe are changing the investment sentiment in Europe and the United States, according to a recent CreditWeek International article by Standard & Poor's Corp.

Given the likely continuation of U.S. dollar weakness, investors have been shunning dollar-denominated issues and increasingly turning to European currency unit-denominated securities, said the report.

In the first half of 1985 alone, the volume of ECU issues sold has exceeded 1984 total sales volume by 40%, according to the article.

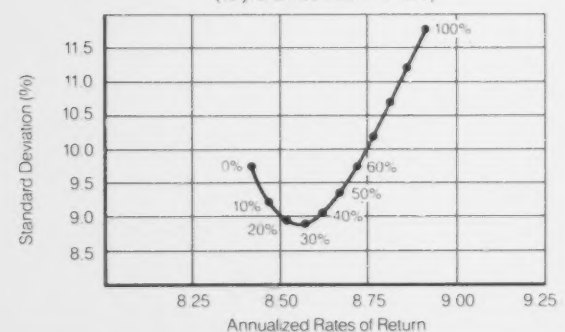
To remain abreast of ever-shifting currency values, many issuers of corporate debt have hedged their exchange risk.

International fixed income programs offer a timely way to enhance your domestic bond portfolio

## On a Risk Adjusted Basis, Returns are Attractive

% International Bonds

(10 yrs. annualized thru 1984)



Source: InterSec Research Corp.

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# Bond funds . . .

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"That's because we've been able to get a far better performance in Japanese stock selection."

Japan produced a 5.7% return in the Aetna Montagu portfolio; in comparison, the Tokyo local market index, in U.S. dollar terms, only rose 3.6%, he added.

"We wanted to follow stocks in each country's market that had two common themes — deregulation in communications, particularly telecommunications and (deregulation in) financial markets," he said.

Citicorp Investment Management, New York, with its International Equity Fund, was third for the quarter with a time-weighted total return of 7.2%.

By comparison, the benchmark Capital International Europe Australia Far East index logged a 6.7%

time-weighted total return for the quarter.

For the year ended June 30, First Chicago Investment Advisors' International Dollar Fixed Fund again was the winner, with a time-weighted total return of 29.9%.

One of the most critical elements in the appreciation of this roughly \$80 million international bond fund has been the drop in U.S. interest rates, which pushed up the price of dollar-denominated bonds, said Richard Carr, managing director and division head of international investment.

"International dollar fixed-income issues ought to perform well in the future," he said. "But returns are going to be nothing like what we've seen over the past 12 months or so."

This is because interest rates

have come down to where officials at First Chicago think they ought to be, he added.

Nevertheless, his advice to pension fund investors is to hang tough in international fixed-income instruments and not switch to bonds back home.

In Mr. Carr's opinion, of the three asset classes, international equities, international dollar bonds and non-dollar bonds, the non-dollar bonds offer the best return.

"This is for two reasons. We think that the dollar will continue to decline and, outside the U.S., non-dollar bond markets, excluding currency factors, look far more attractive than do international equity markets."

PCM International's Global Bond Fund was second for the year, with a time-weighted total return of 26.1%.

The EAFE had a return of 23.8%. Bankers Trust Co.'s International Equity Fund followed with a time-weighted total return of 22.5% for

the 12-month period, and it was the premier performing fund for the three years ended June 30.

That \$56 million pool had a 23.7% time-weighted total return for the three-year period.

"Basically it's the seeking out of value within the individual markets and concentrating on the liquid issues" to which the fund's success can be ascribed, according to Jeremy Fillenham, managing director of BT Investment Management in London.

"We are basically risk averse. We don't feel comfortable with putting big bets into certain markets and some stocks. We like to be able to come out of a market as quickly as we can get into it," he said.

IDS International, in London, with its International Collective Fund, was second for the three-year period. It had a time-weighted total return of 23.6%.

The EAFE index returned 21.9% for the period.

In the five-year period ended

June 30, First Chicago's International Dollar Fixed Fund again placed first, with a time-weighted total return of 14.3%.

Bankers Trust's equity fund was the second top performer for the five years, with a return of 11.5%, and the EAFE had a time-weighted total return of 11%.

Stretching results out to 10 years, only three funds and the EAFE showed returns. Most international products have not been in existence long enough to appear in this category.

U.S. Trust, New York, with its International Pooled Equity Fund, was the champion for the 10 years. It had a time-weighted total return of 13.6% for the period.

PIPER International is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn. Because the industry is still young with relatively few international and global commingled funds, all the funds — stock and bond — are compared in one review, the firm said.

## Commingled international funds

### 3-month returns

|                                    | %   |
|------------------------------------|-----|
| 1st Chicago (int. \$ fixed)        | 9.0 |
| Prudential (global bond), N.J.     | 9.0 |
| Aetna Montagu (int. eq.)           | 7.3 |
| Citicorp (int. eq.), N.Y.          | 7.2 |
| Marine Midland (int. eq.), N.Y.    | 7.0 |
| Bankers Trust (int. eq.), N.Y.     | 6.7 |
| EAFE                               | 6.7 |
| 1st Chicago (int. non \$ fi.)      | 6.5 |
| 1st Chicago (int. eq.)             | 6.2 |
| Prudential (foreign bond), N.J.    | 6.1 |
| Bank of America (fixed), Calif.    | 6.1 |
| Chase Manhattan (global eq.)       | 5.8 |
| Citicorp (fixed int.), N.Y.        | 5.7 |
| Morgan Guaranty (fixed bond)       | 5.6 |
| IDS Trust (int. eq.)               | 5.2 |
| Bank of America (int. eq.), Calif. | 5.1 |
| Bessemer Trust (Fund E), N.Y.      | 4.3 |
| CIGNA Corp. (int. eq.), Conn.      | 4.3 |
| Morgan Guaranty (int. eq.)         | 4.1 |

### 1-year returns

|                                 | %    |
|---------------------------------|------|
| 1st Chicago (int. \$ fi.)       | 29.9 |
| Prudential (global bond)        | 26.1 |
| EAFE                            | 23.8 |
| Bankers Trust (int. eq.), N.Y.  | 22.5 |
| 1st Chicago (int. eq.)          | 18.9 |
| Marine Midland (int. eq.)       | 17.3 |
| Aetna Montagu (int. eq.), Conn. | 17.1 |
| Bank of America (int. eq.)      | 15.9 |
| IDS Trust (int. eq.)            | 15.6 |
| CIGNA (int. eq.), Conn.         | 15.5 |
| Travelers Hill Samuel (W)       | 15.4 |
| Chase Manhattan (glob. eq.)     | 14.3 |
| Morgan Guaranty (int. bond)     | 13.1 |
| Mellon Bank (int. fi.), Pa.     | 12.9 |
| Fidelity Mgmt. Tr. (int. eq.)   | 12.8 |

### 3-year returns

|                                  | %    |
|----------------------------------|------|
| Bankers Trust (int. eq.), N.Y.   | 23.7 |
| IDS Trust (col), Minn.           | 23.6 |
| EAFE                             | 21.9 |
| 1st Chicago (int. \$ fixed)      | 21.2 |
| 1st Chicago (int. eq.)           | 19.2 |
| U.S. Trust (int. eq.), N.Y.      | 18.8 |
| American Security (int. eq.)     | 18.1 |
| Citicorp (int. eq.), N.Y.        | 18.0 |
| Center Trust (int. fd. W), Mo.   | 17.1 |
| Morgan Guaranty (int. eq.)       | 16.4 |
| Mellon Bank (int. eq.), Pa.      | 16.2 |
| Bank of America (int. eq.)       | 13.3 |
| Bessemer Trust (fund E), N.Y.    | 11.7 |
| Morgan Guaranty (int. fi.), N.Y. | 11.1 |
| 1st Chicago (non \$ fixed)       | 9.9  |
| Crocker Natl. (int. eq.), Calif. | 8.9  |

### 5-year returns

|                                     | %    |
|-------------------------------------|------|
| 1st Chicago (int. \$ fixed)         | 14.3 |
| Bankers Trust (int. eq.), N.Y.      | 11.5 |
| EAFE                                | 11.0 |
| U.S. Trust (int. eq.), N.Y.         | 10.9 |
| 1st Chicago (int. eq.)              | 9.5  |
| Morgan Guaranty (int. eq.)          | 8.5  |
| Citicorp (int. eq.), N.Y.           | 8.1  |
| Morgan Guaranty (int. eq.)          | 6.0  |
| 1st Chicago (non \$ fixed)          | 4.1  |
| Crocker National (int. eq.), Calif. | 0.6  |

### 10-year returns

|                             | %    |
|-----------------------------|------|
| U.S. Trust (int. eq.), N.Y. | 13.6 |
| EAFE                        | 13.4 |
| Morgan Guaranty (int. eq.)  | 12.4 |

Many Swiss customs survive to this day because they are the expression of a daily way of life that requires cooperation and a strong sense of responsibility within the context of freedom.

The "Landsgemeinde" is a good example of this: At the end of April or in early May these citizens' assemblies are held each year in the Cantons of Nidwalden, Obwalden, in the two Appenzell Cantons and in Glarus. Out in the open air the people meet face to face with the authorities; here they elect the government, and by directly voting on important issues they act as a legislative body in its own right. Each single citizen voices his opinion by raising his hand. Responsibility is taken seriously.

## Responsibility Is Taken Seriously.

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# Union investing creates jobs and returns

By Trudy Ring

CHICAGO — Three union pension funds have invested about \$20 million in a program officials say will create jobs for union members while providing market rates of return for the funds.

The funds have committed dollars to provide mortgages to buyers of union-built homes. However, the program is set up so the funds will not hold the actual mortgages, but Government National Mortgage Association securities instead.

Investment advisers for the funds said this aspect of the program will help avoid any conflict with the Employee Retirement Income Security Act. The funds prob-

ably would buy GNMA securities anyway, they said. Also, the funds will receive market rates of return on their investments, they said.

Funds that have made commitments to the Union Built and Financed Housing Program are the Chicago Plumbers Local 130, United Union of Roofers, Waterproofers and Allied Workers Local 11 and the more than \$300 million Chicago District Council of Carpenters. Information on the size of the plumbers' and roofers' funds was not available.

The plumbers committed \$10 million — \$5 million in new funding and \$5 million that was rolled over from a pilot program that was launched two years ago. The other

funds committed \$5 million each.

The funds allocated the money to Amalgamated Trust and Savings Bank, Chicago. The bank will commit the funds to Draper and Kramer Inc., a Chicago-based residential mortgage firm, at a rate comparable to that of intermediate- or long-term mortgage-backed securities.

Draper and Kramer will provide Federal Housing Administration and Veterans Administration mortgage money to selected union builders in Chicago and the surrounding area. The builders will offer 30-year mortgages to home buyers.

As the homes are sold, Draper and Kramer will process, close and finance the mortgage loans. It then will pool the loans and forward its paper work to the GNMA, which will approve Draper and Kramer's mortgage-backed bonds as GNMA securities representing the value of the mortgage loans, said Ron Nelson, senior vice president of Draper and Kramer.

His firm will forward these certificates to Amalgamated Bank for the pension funds' accounts.

The rate of return to the pension funds will be pegged to the VA-established rate for home mortgages, said Ira Frank, Amalgamated Bank president. The rates may fluctuate, as would the rates for U.S. government bonds, he said.

"There's no more risk here than there is in any other government security," he said.

Mr. Frank said the idea for the program came up in discussions with Edward Brabec, former business manager for the plumbers' local and now president of the Chicago Federation of Labor.

"We had many discussions on how the unions could help their own cause," Mr. Frank said. They looked at some housing-related investments done by other unions that ended up in conflict with ERISA for offering mortgages at below-market rates. They also brought Mr. Nelson into their discussions and developed the idea of the Union Built and Financed Housing Program.

With the plumbers' pension fund as sole investor, they launched the pilot program two years ago. The fund got a return of more than 10% on its \$5 million investment, Mr. Frank said. This was higher than the seven-year Treasury bill yield at the time, he said.

Union officials who have been connected with the program are enthusiastic about it.

"It's a win-win program," Mr. Brabec said. "While stimulating the demand for housing and creating more jobs for union members, the program allows people to buy a new or rehabilitated home at an af-



Photos by Michael A. Marcotte

A union worker at the Orland Park, Ill., project.

fordable price. It also is a way to enhance the overall yield of the pension fund."

Messrs. Frank and Nelson said the mortgages will be made and securities delivered within nine months. They said they expect the program to finance sales of about 340 homes in Cook County, which includes Chicago, and four surrounding counties.

They said they also hope to draw other union funds into the program. They said unions can target the portion of the Chicago area where their members work, so as to create jobs for them.



This housing development is financed by three union funds.

## Proponents fear their demise

# ESOPs headed for change

By Rick Rosenfeld

The Reagan administration's proposal for restructuring employee stock ownership plans has ESOP proponents predicting the death of the program, but has opponents calling for more restrictions.

The gist of the proposal is the federal government wants to remove ESOPs from the realm of retirement plans and structure them as a non-qualified plan to employee-owned companies.

Although part of the administration's II tax reform package, the issues concern non-tax questions.

Under the new structure, leveraged ESOPs — plans that borrow money to purchase company stock — no longer would be covered by the Employee Retirement Income Security Act. The package also would give employees under leveraged plans more extensive voting rights, would allow them to sell their stock to outside interests and would enable them to force a non-publicly traded employer to buy back their stock at fair market value three years after the initial allocation.

Corey Rosen, executive director of the National Center for Employee Ownership, a research and information group based in Arlington, Va., said he does not think the changes are practical.

"It's naive," he said. "What they are trying to do is make the system more democratic for employees by making them 'real owners.' Unfortunately, what you will have is a democratic system without any ESOPs."

David Binns, managing director of the ESOP Association, Washington, agreed. "What the government doesn't see is that ESOPs can be good for employers and good for employees," he said. "They want to make it so it's just good for employees. You can't give employees 100% control; no company would be willing to set one up."

But Michael Gordon, a Washington pension attorney, said changes

are needed and companies that truly have employee ownership as a goal will not be deterred by the administration's proposal.

"ESOPs are not philosophically designed in the right way under current law... and they are not sound retirement policy," Mr. Gordon said. "There are some fundamental conflicts between goals and means."

"Take voting pass-through; philosophically, (ESOP advocates) believe voting pass-through is desirable — employees end up as owners. The problem is, that competes with the needs of outside shareholders. That creates tension."

"It's a no-win game (for employees). (ESOPs) are masqueraded as employee stock ownership, but it's not really employee stock ownership," Mr. Gordon said.

Mr. Gordon said while the administration's proposal — which would take effect Jan. 1 — would be a step in the right direction, it does not attack the root of the problem: companies using ESOPs as a means of tax-subsidized corporate finance.

Ironically, while the Treasury II proposal states "the tax law should not foster arrangements, such as those existing under current law, which purportedly vest the incidents of ownership of employer securities in employees, but which actually defer and, in certain respects, deprive employees of the rights and responsibilities of stock ownership," the actual changes in the tax treatment of ESOPs would be minimal.

Companies still would be able to benefit by deducting both principal and interest costs of ESOP loan repayments up to 25% of eligible employees' combined salaries. Outside stockholders still would be taxed at lower rates when selling stock to the ESOP. Lenders to an ESOP would benefit by excluding from taxable income 50% of the interest collected on the loans.

The main change is that the proposal calls for a specific section of the tax code dealing with leveraged ESOPs but makes no mention of

non-leveraged ESOPs. The practical effect, proponents claim, would be to tax employees at a rate as high as 62% on their non-leveraged earnings.

Robert Strickland, chairman of both the Employee Stock Ownership Association and Lowe's Companies Inc., a North Carolina company that is 30% employee owned, said the tax implications are unfair.

"It's absolutely un-American," Mr. Strickland said. "It's incredible to think that the proposal would tax employee ownership that much. Outside investors and fat-cat insiders like me get taxed at 17½% capital gains. But rank-and-file employees (in non-leveraged plans like the Lowe's plan) would be taxed at ordinary income: 35%."

Mr. Strickland said because non-leveraged ESOPs still would be considered retirement plans, employees also could face an additional 20% penalty

tax if they retire before they are 59½. In some areas employees would have to pay state tax, as well.

Harry Conaway, attorney/adviser in the Treasury Department's tax policy office, said taxing non-leveraged ESOPs more than their leveraged counterparts was not the intent.

"Our intent is to group all ESOPs together," Mr. Conaway said. "We're not trying to split ESOPs all over the place. You have to remember that this part of the tax proposal is new to Treasury II; it was not in Treasury I at all. Naturally, there are still questions that have to be addressed. It still needs some developing."

Other parts of the proposal ESOP advocates want changed are:

- Allocate stock within an ESOP based on compensation, but only on the first \$50,000 earned.
- Limit contributions to a non-leveraged ESOP to 15% of an employee's lifetime compensation.
- Create immediate vesting for employee accounts in leveraged ESOPs, allowing short-term employees to realize a windfall.
- Require a five- to 12-year amortization period for ESOP fi-

nancing.

Should the administration's position on ESOPs be accepted — a prospect Messrs. Strickland, Binns, Rosen and Gordon all find unlikely — it would mark a dramatic turn-around in government policy.

Since ERISA first incorporated the plans into tax laws in 1974, numerous federal measures have provided incentives for the plans. Estimates on the popularity of ESOPs show they have grown to as many as 7,000 in 1985 from 300 in 1974.

Mr. Strickland and others say the proposal would undo the progress made during the past decade.

"There is no doubt that ESOPs are such a good deal now for the owners," the Treasury Department's Mr. Conaway responded. "Now, when a company sets up an ESOP, there is really no change in who controls the company: the pre-transaction owner is the same as the posttransaction owner. We question whether those types of ESOPs are appropriate."

"The basic question is that current rules allow a lot of transactions to occur that shouldn't be tax subsidized. I don't think that 'abuse' is necessarily the right word, though."

Mr. Gordon points to the case of Rath Packing Co., Waterloo, Iowa, as an example of an ESOP gone awry. Rath, which set up an ESOP in 1979 as a last-ditch effort to save the company, gave workers 60% control of the company in return for wage concessions.

"For a while (everybody thought) 'Gee, this is a sterling way to salvage jobs,'" Mr. Gordon said. "But then after awhile, great divisiveness developed. There was a lot of bitterness. It was like an albatross around the necks of everyone involved."

Last winter, faced with rising labor costs and a dying infrastructure, Rath closed its doors, leaving employees with worthless stock.

But Mr. Strickland said for every company like Rath, there are several successful ESOPs. His company's 7-year-old ESOP already has an average account balance of \$19,000. Mr. Strickland is quick to point out productivity, profits and taxes paid have skyrocketed. The company's \$57.6 million corporate tax bill last year was nearly 90 times the 1971 total.

## ESOPs with 66% or more employee ownership

| Company                     | No. of employees | % owned |
|-----------------------------|------------------|---------|
| Weirton Steel Corp.         | 8,000            | 100     |
| Pamida                      | 5,200            | 100     |
| Lifetouch                   | 4,000            | 100     |
| Amer. Cast Iron Pipe Co.    | 2,900            | 100     |
| OTASCO                      | 2,500            | 100     |
| The Okonite Co.             | 1,900            | 100     |
| Hyatt Clark Industries      | 1,400            | 100     |
| Matthews International      | 1,250            | 100     |
| Bureau of National Affairs  | 1,200            | 100     |
| Denver Yellow Cab Co-op     | 1,200            | 100     |
| Dan River Textiles          | 11,000           | 95      |
| The Journal Co.             | 3,460            | 90      |
| Halmode Apparel             | 1,200            | 89      |
| Science Applications Intl.  | 6,000            | 85      |
| W.L. Gore & Assoc.          | 3,000            | 85      |
| Publix SuperMarkets         | 37,000           | 84      |
| Thomson-McKinnon Securities | 3,500            | 76      |
| Jerrell                     | 1,500            | 70      |
| E-Systems                   | 10,000           | 68      |

Source: National Center for Employee Ownership, May 1985

# PIPER

## Leading funds focus on short-term trends

By Chuck Paustian

Special equity commingled funds designed to take advantage of short-term trends in the economy, such as gains in the regional bank industry and growth in health care, captured the top spots for the quarter and year in the most recent Pensions & Investments' Performance Evaluation Report.

The Standard & Poor's 500 stock index bettered the return of the median PIPER fund for three of the five time periods tracked, all ended June 30.

For three months, one year and three years, the returns of the S&P 500 vs. the median fund were 7.4% and 5.7%; 31.1% and 21.2%; and 26.3% and 23.3%, respectively.

For five and 10 years, the S&P 500 lagged the median fund (16.6% vs. 18.1% for five years, and 12.7% vs. 16.4% for 10 years).

All returns are time weighted; for periods longer than one year, they are compounded annually.

The First National Bank of Neenah, Wis., had the top-performing fund for the quarter. The \$5 million regional bank fund returned 19.4% for the period.

"The objective of the fund was to invest in good-quality banks with decent growth records and attractive potential growth in the future. Our key objective was to participate in interstate banking," said Kenneth J. Brusda, vice president and trust investment officer.

He said the fund looks for smaller banks with high takeover potential and waits for the price of the stock to rise when an acquisition is announced. If there is no acquisition, the remaining requirements still provide for a fundamentally sound investment, he said.

"We started investing in that area in 1982 on an individual basis. In order to use this concept more broadly, we decided to create this fund" about a year ago, Mr. Brusda said.

He said the gains from acquired banks were the primary force behind the fund's performance.

"Since the end of June, two of our largest holdings in the fund have announced they have agreed to be acquired and at premium prices," he said. They are **Union Trust Bank**, Baltimore, and **Second National Corp.**, Saginaw, Mich.

Saginaw, Mich.

Other large holdings that performed well for the fund include: **Central Bancorporation Inc.**, Cincinnati; **Suburban Bancorp.**, Bethesda, Md.; **Atlantic Bancorporation**, Jacksonville, Fla.; and **First Railroad & Banking Co. of Georgia**, Augusta.

Mr. Brusda said he realizes the fund's performance will not continue indefinitely; he is making plans for the future.

"We're realistic enough to realize it will come to an end," he said. "Over the next two to three years, the concept will be recognized enough that the prices won't be attractive enough to be the sole design of the fund. It still has a ways to go yet."

"I can see us, once we feel the concept has run its course, terminate the fund and use the assets to move into our other funds."

Other top-performing funds for the quarter were Citicorp Investment Management, New York, emerging health care fund, with a return of 15.2%; Michigan National Investment Corp., Bloomfield Hills, 14.3%; Equitable Bank, Baltimore, 13.9%; and Citicorp's special situation fund, 13.4%.

For the one-year period ended June 30, the best performing fund was Citicorp's, which returned 52.2%. Other top-performing funds for the period include Michigan National, with a return of 46.6%; Citicorp's special situation, 43.4%; Fidelity Management Trust Co., Boston, 41.2%; and First National Bank of Minneapolis, 38.3%.

Parag Saxena, assistant vice president at Citicorp, said the \$65 million emerging health care fund invests in smaller capitalization companies in the health care industry.

"Our view toward health care is that it's an area that is underinvested," he said.

Mr. Saxena said the revenues of the large drug, hospital supply and hospital management companies account for between \$50 billion and \$60 billion of total industry revenue, estimated at \$387 billion. The balance is made up of smaller companies with strong growth potential.

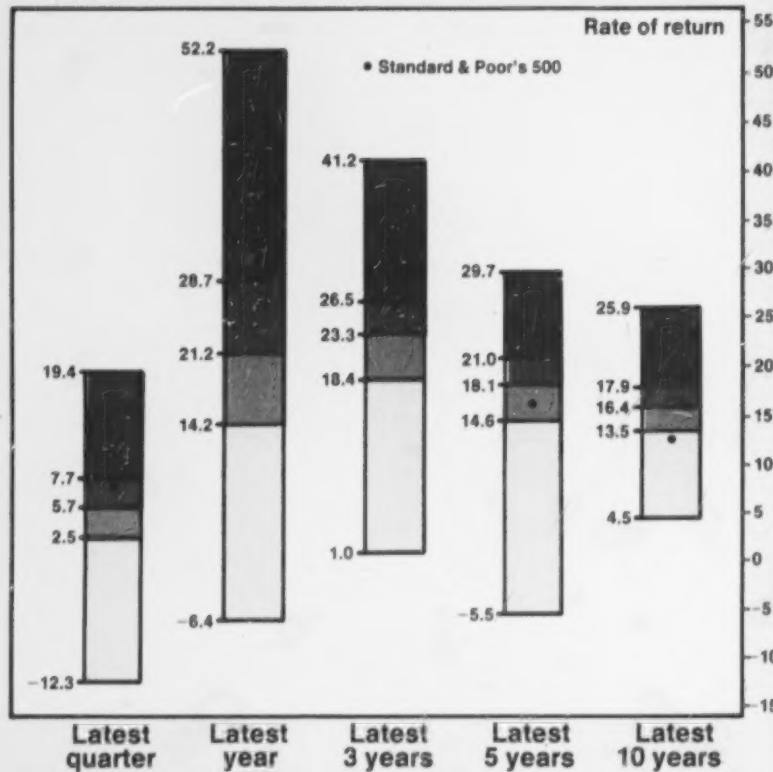
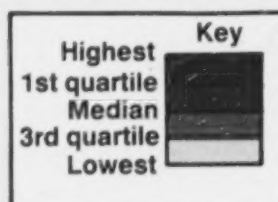
"We think the way to invest in health care is to invest in those rapidly growing companies coming to the capital markets for the

Continued on page 44

Pooled special equity funds of banks and insurance companies.

PIPER report compiled by Rogers, Casey & Barksdale Inc.

All periods ending June 30, 1985, and all figures, except latest quarter, are annualized total returns.



The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.

### Commingled special equity funds 3-month returns

|                                    | %    |
|------------------------------------|------|
| 1st of Neenah (Reg. bk. fd.), Wis. | 19.4 |
| Citicorp (health care), N.Y.       | 15.2 |
| Michigan Natl. of Grand Rapids     | 14.3 |
| Equitable Bank, Md.                | 13.9 |
| Citicorp (Spec. sit.), N.Y.        | 13.4 |
| Bankers Trust (Sup. eq.), N.Y.     | 12.6 |
| Summit Trust Co., N.J.             | 12.2 |
| Merchants National (Eq. 2), Ind.   | 10.7 |
| Bank of America, Calif.            | 10.6 |
| Central Natl. (E.M.), Cleveland    | 10.3 |
| Mellon Bank, Pa.                   | 9.8  |
| First Pennsylvania Bank            | 9.2  |
| Citizens & Southern, Ga.           | 9.1  |
| Norwest Bank, Minn.                | 9.1  |
| First of Boston (Eq. II), Mass.    | 8.8  |
| Chase Manhattan (Int. cap.), N.Y.  | 8.8  |
| Fidelity Mgmt. Trust, Mass.        | 8.7  |
| Lincoln Natl. Pens., Ind.          | 8.4  |
| Metropolitan Life (No. 43), N.Y.   | 8.3  |
| Security Pacific (G), Calif.       | 8.3  |
| Mutual of New York                 | 8.2  |
| Trust Co. of the West              | 8.1  |
| Northern Trust, Ill.               | 7.9  |
| Harris Trust, Ill.                 | 7.8  |
| Seafirst Bank, Wash.               | 7.5  |
| Citicorp (R.E. stk.), N.Y.         | 7.5  |
| First of Boston (Eq. yld.), Mass.  | 7.4  |
| Standard & Poor's 500              | 7.4  |
| First of Neenah (Eq. inc.), Wis.   | 7.3  |
| Old Second National, Ill.          | 7.1  |
| Pittsburgh National (QRC), Pa.     | 7.0  |
| First Wisconsin Trust              | 7.0  |
| First of Minneapolis (No. 20)      | 6.6  |
| Trust Co. of Georgia               | 6.5  |
| Bank of New York (A)               | 6.5  |
| United Virginia Bank               | 6.4  |

|                                  |     |
|----------------------------------|-----|
| Man. Hanover (Sup. eq.), N.Y.    | 6.4 |
| First Interstate of Nevada       | 6.3 |
| National Bank of Detroit         | 6.2 |
| Chase Manhattan (Val. eq.), N.Y. | 6.1 |
| MBank, Austin, Texas             | 6.1 |
| Connecticut National Bank        | 6.0 |
| Mid-State Bancorp, Pa.           | 6.0 |
| MTrust, Texas                    | 6.0 |
| CIGNA Corp., Conn.               | 5.9 |
| Chemical Bank (F), N.Y.          | 5.9 |
| Central Trust, Ohio              | 5.9 |
| First of Chicago                 | 5.8 |
| Manufacturers Detroit (I), Mich. | 5.7 |

### 1-year returns

|                                   | %    |
|-----------------------------------|------|
| Citicorp (health care), N.Y.      | 52.2 |
| Michigan Natl. of Grand Rapids    | 46.6 |
| Citicorp (Spec. sit.), N.Y.       | 43.4 |
| Fidelity Mgmt. Trust, Mass.       | 41.2 |
| First of Minneapolis (No. 20)     | 38.3 |
| First of Neenah, Wis.             | 38.3 |
| First Trust St. Paul, Minn.       | 37.9 |
| Citicorp (R.E. stock), N.Y.       | 37.6 |
| Summit Trust Co., N.J.            | 36.1 |
| Trust Co. of the West (Spec. eq.) | 35.8 |
| Mellon Bank, Pa.                  | 35.4 |
| Metropolitan Life (No. 43), N.Y.  | 35.3 |
| MBank, Austin, Texas              | 33.8 |
| First of Boston (Eq. yld.), Mass. | 32.7 |
| Seafirst Bank, Wash.              | 32.5 |
| First Wisconsin Trust             | 32.5 |
| Bankers Trust, N.Y.               | 31.9 |
| First of Boston (Eq. II), Mass.   | 31.4 |
| Standard & Poor's 500             | 31.1 |
| Mutual of New York (Eq. inc.)     | 30.4 |
| National Bank of Detroit          | 30.2 |
| First of Maryland                 | 30.0 |
| Old Second National, Ill.         | 29.5 |
| Merchants National (Eq. 2), Ind.  | 29.2 |
| Connecticut National Bank         | 27.4 |

|                                   |      |
|-----------------------------------|------|
| Oregon Bank                       | 27.3 |
| Lincoln Natl. Pens., Ind.         | 27.2 |
| Shawmut Bank, Mass.               | 27.1 |
| First Pennsylvania Bank           | 26.9 |
| United Virginia Bank              | 26.8 |
| Wachovia (Div. cap. grow), N.C.   | 26.5 |
| Security Pacific (G), Calif.      | 25.6 |
| Sentry Life (A), Wis.             | 25.0 |
| Bank of America, Calif.           | 24.8 |
| Trust Co. of Georgia              | 24.6 |
| HT Investors, R.I.                | 24.2 |
| Merchants National, Pa.           | 24.2 |
| Trust Co. of the West (Val. add)  | 23.6 |
| First National of Tulsa, Okla.    | 23.5 |
| First of Chicago                  | 23.3 |
| Man. Hanover (Sup. eq.), N.Y.     | 22.5 |
| First of Neenah (Cap. app.), Wis. | 22.0 |
| Norwest Bank, Minn.               | 22.0 |
| Morgan Guaranty (Sup. op.), N.Y.  | 21.7 |
| Equitable Bank, Md.               | 21.6 |
| Merchants National, Ala.          | 21.5 |
| Chase Manhattan (Int. cap.), N.Y. | 21.4 |

### 3-year returns

|                                  | %    |
|----------------------------------|------|
| Fidelity Mgmt. Trust, Mass.      | 41.2 |
| Citicorp (R.E. stock), N.Y.      | 40.8 |
| Security Pacific (G), Calif.     | 37.6 |
| Citicorp, N.Y.                   | 36.2 |
| Provident National, Pa.          | 32.6 |
| First Trust St. Paul, Minn.      | 32.1 |
| Connecticut National Bank        | 32.0 |
| Equitable Bank, Md.              | 31.9 |
| California First Bank            | 30.3 |
| First of Maryland                | 30.0 |
| First Pennsylvania Bank          | 29.5 |
| Natl. City (Eq. R.E.), Cleveland | 29.4 |
| First of Boston (Eq. II), Mass.  | 29.3 |
| Chase Manhattan (Val. eq.)       | 28.9 |
| Wachovia (Div. spec. val.), N.C. | 28.7 |
| United Virginia Bank             | 28.2 |

|                                   |      |
|-----------------------------------|------|
| Bankers Trust (Sup. eq.), N.Y.    | 27.7 |
| Bank of America, Calif.           | 27.3 |
| First of Chicago                  | 27.0 |
| First of Boston (Eq. yld.), Mass. | 26.9 |
| Standard & Poor's 500             | 26.3 |
| National Bank of Detroit          | 26.3 |
| Mellon Bank, Pa.                  | 26.1 |
| Chase Manhattan (Int. cap.)       | 25.7 |
| Central Natl. (OR), Cleveland     | 25.3 |
| Equitable Life (Spec. grow)       | 25.2 |
| Mutual of New York                | 25.2 |
| Connecticut Bank & Trust          | 25.0 |
| First Wisconsin Trust             | 24.9 |
| Norwest Bank, Minn.               | 24.9 |
| Man. Hanover (Uncommon)           | 24.9 |
| Prudential (MIDCO), N.J.          | 24.8 |
| American Security, D.C.           | 24.7 |
| MTrust, Texas                     | 24.1 |
| Morgan Guaranty (Sup. opp.)       | 24.1 |
| Lincoln Natl. Pens., Ind.         | 24.1 |
| Chase Manhattan (Spec. eq.)       | 24.1 |
| Oregon Bank                       | 23.8 |
| Northern Trust, Ill.              | 23.5 |
| Citicorp (Growth F), N.Y.         | 23.4 |

### 5-year returns

|                                | %    |
|--------------------------------|------|
| California First Bank          | 29.7 |
| Provident National, Pa.        | 28.9 |
| Citicorp (R.E. stock), N.Y.    | 26.3 |
| First of Maryland              | 25.0 |
| MTrust, Texas                  | 24.8 |
| Citicorp (Spec. sit.), N.Y.    | 24.3 |
| Northern Trust, Ill.           | 24.0 |
| Bankers Trust (Sup. eq.), N.Y. | 23.7 |
| Merchants National, Ala.       | 23.4 |
| Bank of America, Calif.        | 22.8 |
| Norwest Bank, Minn.            | 22.6 |
| Chase Manhattan (Val. eq.)     | 22.3 |
| First of Chicago               | 21.9 |
| First Pennsylvania Bank        | 21.6 |

### 10-year returns

|                                | %    |
|--------------------------------|------|
| MTrust, Texas                  | 25.9 |
| Equitable Bank, Md.            | 24.9 |
| California First Bank          | 22.7 |
| First of Maryland              | 22.2 |
| Chase Manhattan (Spec. eq.)    | 20.7 |
| Northern Central, Pa.          | 20.6 |
| Bankers Trust (Sup. eq.), N.Y. | 20.3 |
| Bank of America, Calif.        | 18.9 |
| National City, Cleveland       | 18.1 |
| Connecticut Bank & Trust       | 18.1 |
| Morgan Guaranty (Small), N.Y.  | 17.6 |
| Provident National, Pa.        | 17.4 |
| Norwest Bank, Minn.            | 17.3 |
| Citicorp (Spec. sit.), N.Y.    | 17.1 |
| Equitable Life (Spec. grow)    | 16.9 |
| Citicorp (Growth F), N.Y.      | 16.8 |
| InterFirst Inv. Mgmt., Texas   | 16.8 |
| Chemical Bank, N.Y.            | 16.6 |
| Man. Hanover (Spec. eq.), N.Y. | 16.4 |
| Ameritrust, Ohio               | 16.4 |
| Standard & Poor's 500          | 12.7 |

## Benefit execs' pay compared

A chance at bonuses, as well as bigger paychecks, are among the benefits of being a benefits department manager in a large company.

According to a study conducted by Charles D. Spencer & Associates, a publisher of employee benefits information, a typical executive at a company with 25,000 employees makes about \$30,000 more a year than an executive at a company with fewer than 1,000 employees.

The median annual salary for large company department heads is in the \$60,000 to \$70,000 range. For small companies, that salary range is \$35,000 to \$40,000. Medium-size companies fall between the two groups, with benefits heads in companies with

1,000 to 5,000 employees earning in the \$40,000 to \$45,000 range and heads with 5,000 to 25,000 employees making from \$50,000 to \$60,000.

The study also shows that bonuses are most often offered in larger companies and department heads that qualify usually have high base salaries as well.

While salary and company size showed a fairly strong correlation, the study showed a weak relationship between salary and tenure in benefits departments, especially in larger companies.

In companies with 5,000 or more employees, 35 top salary fund executives had fewer than 11 years experience in benefits, compared with 37 with 11 or more years experience. The

study thus interpreted experience as "no guide to salary."

In percentages, however, experience did prove to be linked to salary.

Forty-five percent of large company department heads with at least 21 years experience earn \$70,000 or more, compared with 30% for heads with 11 to 20 years experience and 17% for those with 10 or fewer years experience.

Analyst Ross Spencer said his company did not examine percentages in detail in the study, even though the number of respondents in each category was different.

"You obviously looked at the numbers a lot closer than we did," he said.

## Leading funds . . .

Continued from page 43  
first time," he said.

Some of the fund's largest positions that have performed well include **Applied Biosystems Inc.**, Foster City, Calif.; **Maxicare Health Plans Inc.**, Hawthorne, Calif.; **Mediplex Group Inc.**, Newton, Mass.; and **Healthcare Services Group Inc.**, Huntingdon Valley, Pa.

Mr. Saxena said overcapacity, as measured by hospital beds and physician supply, and cost containment efforts are driving forces behind the growth in health care.

"As long as those two forces stay in place, these kinds of companies will have stellar growth," he said.

For the three-year period, Fidelity Management captured the top spot, with a return of 41.2% for its aggressive equity fund.

Other top funds include Citi-

corp's real estate stock fund, 40.8%; Security Pacific National Bank, Los Angeles, 37.6%; Citicorp's special situation fund, 36.2%; and Provident National Bank, Philadelphia, 32.6%.

Peter S. Lynch, senior vice president at Fidelity, said about one-third of the \$400 million fund is invested in conservative stocks, one-third in growth company stocks and one-third in cyclical stocks.

As part of the conservative strategy, Mr. Lynch said, he sometimes invests in the bonds of companies when the stocks of those companies are less attractive. However, exposure to bonds has been reduced to about 5% of the fund's holdings.

The fund is heavily weighted in the regional bank, automobile, insurance and savings and loan sectors of the market.

"It changes all the time," he said. "In the last six months, we cut back on electric utilities, telephone utilities and food company stocks," he said.

The fund's holdings include **Chrysler Corp.**, Detroit, and **Bank of New England Corp.**, Boston.

The \$23 million supplemental equity fund of California First Bank, San Diego, was the best performing fund for the five-year period ended June 30. The fund returned 29.7%.

"Most of the stocks are earnings driven," said William Jeffery, III, president of California First Capital Management, La Jolla.

He said the fund's stocks have market capitalizations between \$200 million and \$400 million and projected growth of at least 30% in the next two to three years.

Mr. Jeffery said specialty retailers and regional airlines receive the heaviest weighting. He expects exposure to the technology sector will be increased to about 50% from about 20%.

The fund's stock positions include **The Price Co.**, San Diego; **Liz Claiborne Inc.**, New York; **Atlantic Southeast Airlines Inc.**, College Park, Ga.; **Simmons Airlines Inc.**, Chicago; and **Cray Research Inc.**, Minneapolis.

Second for the five years was Provident National, with a return of 28.9%, followed by Citicorp's real estate stock fund, 26.3%; The First National Bank of Maryland, Baltimore, 25%; and MTrust, Houston, 24.8%.

MTrust's special situation growth fund had the best return — 25.9% — for the 10-year period ended June 30.

Hilton Hemphill, president of MSecurities Corp., Dallas, and portfolio manager for the \$20 million fund, said the fund invests in growth companies generally with less than \$200 million in market capitalization.

"We use smaller capitalization companies that are too small for our larger accounts. (The fund) is an extension of the strategy we use for our larger accounts," said Mr. Hemphill.

He said the fund has light exposure to technology and energy with a heavy weighting on the consumer industry.

"Generally, the small, consumer growth companies comprise about one-half the fund and will continue to. The only change will be to reduce some of the retailing names," Mr. Hemphill said.

Some of the stocks in which the fund invests are **Dillard Department Stores Inc.**, Little Rock, Ark.; **Ames Department Stores Inc.**, Rocky Hill, Conn.; **Catalyst Energy Development Corp.**, New York; and **Aviall Inc.**, Dallas.

Other top-performing funds for the 10-year period include Equitable Bank, 24.9%; California First Bank, 22.7%; First National Bank of Maryland, 22.2%; and Chase Manhattan Bank, New York, 20.7%.

PIPER is compiled by the consulting firm Rogers, Casey & Barksdale, Stamford, Conn. ■

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# More action taken on South Africa

By Trudy Ring  
and Chuck Paustian

South Africa-related investments remain a major issue for tax-exempt funds, with recent actions concerning two states, four university systems and two cities.

State investment councils in New Mexico and North Dakota have voted to restrict some of their

tax-exempt funds' investments in South Africa-related securities.

A circuit court judge in Michigan upheld a state law prohibiting university endowment funds from holding stocks in companies doing business in South Africa and the Soviet Union.

Regents of the Arizona University System voted to sell stocks in all companies doing business in

South Africa, while a Columbia University trustees committee recommended such action.

The University of Idaho, Moscow, informally adopted a policy of making sure its investments are in companies fighting apartheid.

Officials of municipal pension funds in Wichita, Kan., and Norfolk, Va., are considering divesti-

ture. The New Mexico Investment Council's measure calls for the \$2.2 billion State Permanent Fund to divest itself of stocks in all companies doing business in South Africa. The permanent fund helps finance education.

The action does not affect the \$1 billion New Mexico Educational

Continued on page 61

## Late news

### Amendment offered

WASHINGTON — The House Education and Labor Committee offered its single-employer reform package as an amendment to a budget reconciliation bill.

The Education and Labor Committee's package, approved along with two similar measures,

Continued on page 2

# Pensions & Investment Age

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## LTV, Pan Am freeze 12 pension plans

By Fred Williams  
and Chuck Paustian

The LTV Corp., Dallas, and Pan American World Airways Inc., New York, are freezing defined benefit plans and establishing defined contribution plans to keep their already huge unfunded liabilities from growing even larger and to eventually divert to corporate coffers cash that would have gone for pension expenses.

Both companies are financially strapped and previously have searched for ways to raise cash and cut costs, such as selling assets and getting wage concessions from employees.

Specifically, LTV cut wages of salaried employees and eliminated two paid holidays. Those moves, along with the pension ones, will save LTV \$50 million to \$60 million per

year, officials estimate. Its total restructuring, previously announced, is expected to save \$500 million during the next 18 months.

"LTV is doing everything it can to muster cash," said John Tumazos, steel analyst at Oppenheimer & Co., New York.

LTV plans to freeze two defined benefit plans, totaling about \$350 million in assets, for salaried employees of LTV Steel Co., replacing them with a single defined contribution plan in January.

Company officials said the move will prevent any further growth of its unfunded liability in the salaried plans it is freezing. The steel unit's defined benefit plans had an unfunded liability of \$773 million on an ongoing basis as of Dec. 31, 1983.

Pan Am sold its international Pacific division to United Air Lines and plans to raise \$200

million through issuance of convertible senior subordinate debentures maturing in 25 years.

The airline, which froze all 10 of its domestic defined benefit plans — with total assets of \$1.118 billion — as of Jan. 1, 1984, now is setting up five defined contribution plans and may add one other.

Pan Am's unions agreed, reluctantly, to the moves. "It is an absolute rip-off. They're using the money that should have been paid into the pension plans as a low-interest loan from the IRS," said Star Hesse, member of the Independent Union of Flight Attendants.

Company contributions to the new plans will equal 6% of the previous year's salary, of which 2.5% will be in authorized but unissued common stock of Pan Am Corp., the airline's holding company.

Carl F. Stillwell, director-pensions and group

insurance, said such actions eventually will lower Pan Am's pension expense and eliminate its unfunded liability of \$448 million (on a termination basis as of Jan. 1, 1984).

In the past, both companies sought permission from the Internal Revenue Service to waive their pension contributions.

Indeed, Mr. Stillwell said freezing benefit accruals in Pan Am's defined benefit plans was one of the conditions of the IRS in granting a waiver of the company's \$75.7 million contribution to some pension funds for plan year 1982.

Pan Am has received IRS approval of funding waivers totaling \$208.7 million for plan years 1980, 1981 and 1982. A partial waiver of \$28.3 million for plan year 1983 is pending; Pan Am has agreed to make the contribution if its

Continued on page 60

## International finds four more backers

By Rose Darby

NEW YORK — Four corporate pension funds have injected about \$138 million into international investments as three hired international managers and one expanded and reallocated its commitment overseas.

In addition, at least seven other pension funds and one endowment either are searching for international managers or are considering international investment.

The pension funds of U S WEST Inc., Englewood, Colo., and Sperry Corp., New York, hired their first international managers; Weyerhaeuser Co., Tacoma, Wash., reportedly hired three international managers; and International Telephone and Telegraph Corp., New York, terminated one international manager and expanded its total allocation to international investments, giving fresh infusions of cash to three existing managers.

In another development, Morgan Stanley & Co. Inc., New York, has acquired 100% ownership of the

publications and stock market indexes of Capital International Perspective, Geneva, Switzerland.

The Capital International World Index and the Capital International Europe Australia Far East Index will be renamed the Morgan Stanley Capital International World Index and the Morgan Stanley Capital International EAFE Index.

U S WEST, with about \$5 billion in employee benefit assets, has made its first choices for international management, said Steve Crosby, manager of trust investments.

Putnam International Advisors, Boston, and Capital Guardian Trust Co., Los Angeles, were given \$25 million each as core international equity managers, he said.

"Until we are comfortable with this new asset class, we will move cautiously," Mr. Crosby said. "We feel these two managers present our fund with a good risk control program. They control risk by holding a larger number of securities in from 11 to 13 countries."

Continued on page 63



## REAL ESTATE DIRECTORY

The Rowes Wharf project in Boston is an example of the kinds of investments that real estate advisers are making for their pension fund clients. A P&I Age listing of top real estate advisers begins on page 14.

## Plan may buy coal property

By Rick Rosenfeld

GREENWICH, Conn. — Penn Central Corp.'s proposal to sell its interest in Pennsylvania coal properties to its \$420 million pension trust has received preliminary approval from the Department of Labor.

The property — about 26,000 acres of coal rights in Pennsylvania's Greene and Washington counties — has been leased since 1981 to Conoco, a wholly owned subsidiary of E.I. du Pont de Nemours & Co. The current lease expires in 2023.

Linda Shore, employee benefit plan specialist with the Labor De-

partment, said the lease calls for Penn Central and, therefore, the pension trust if the transaction is approved, to receive quarterly royalty payments of at least \$150,000 from Conoco. Royalties for the first quarter of 1985 reached almost \$250,000. Because payments are indexed to inflation, Ms. Shore said, the pension trust would continue to receive a fixed flow of real dollar payments for the duration of the lease.

"Because of the type of property involved and because of the lease characteristics, this is not so much a property sale as a selling of a stream of payments over 38 years," Ms. Shore said.

PaineWebber Inc. conducted an independent appraisal of the property and determined a fair market selling price of at least \$15.38 million. At that price, the firm calculated, the royalty payments would yield the pension trust a fixed real rate of return of 6% if held through the term of the lease.

Bob Schumacher, assistant treasurer for Penn Central, said the company will reduce the sale price by 2% to cover estimated transaction costs the company would have incurred in selling the property to an unrelated party.

"There is no question this is a better buy for the pension plan than for

Continued on page 63

PI  
MD20814STATLR FMPJ  
STATISTICAL REFERENCE INDEX  
4520 EAST-WEST HWY SU 800  
BETHESDA MD 20814

The PIPER monthly indexes track the changes in the Standard & Poor's 500 stock index, the OTC Industrial stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate Bond Index. A story on page 38 takes a look at the pros and cons of the various benchmarks.

### PIPER August Indexes

|                    | Latest mo. | Year to-date | Trailing 12 mos. |
|--------------------|------------|--------------|------------------|
| S&P 500            | -0.8       | 16.1         | 18.3             |
| OTC Inds.          | -1.8       | 17.0         | 6.4              |
| Ryan Index*        | 2.0        | 13.4         | 25.3             |
| SLAE Gov't./Corp.* | 1.8        | 12.2         | 23.3             |

Source: Rogers, Casey and Barksdale Inc.

\*Fixed income.

## Employers charged with saving 401(k)s

By Joel Chernoff

WASHINGTON — Employers might have to come up with revenue savings in other areas of employee benefits if they hope to save 401(k) plans.

While employers' efforts to defuse the Reagan administration's plans to sharply limit 401(k) salary reduction plans might have sparked the government's incendiary proposal to eliminate them, revenue losses from the plans also were a major factor in the decision.

However, the need to drum up nearly \$25 billion in revenue to make President Reagan's tax reform bill "revenue neutral" was reinforced by growing doubts about the plans' legitimacy as retirement income vehicles, a Treasury Department official said.

Those doubts, the official explained, were heightened by employers' pleas to retain early distribution and loan options, and by concerns that the plans do not cover all employees, which made government officials question the plans' usefulness.

Treasury officials decided the plans would not be immune from pressures to make the assets accessible, and thus might turn them into "general purpose savings plans" — voiding their function as retirement income vehicles.

The fast-growing plans have a short but dramatic history. Although created by the 1978 Revenue Act, employers delayed adopting the plans until the Internal Revenue Service confirmed in late 1981 that Congress had endorsed the notion employees could make contributions from pretax dollars.

The IRS' action triggered phe-

nomenal growth. A yearly survey of 250 large employers by Hewitt Associates of Lincolnshire, Ill., found that while none of the companies had such plans in 1981, 1% had them in 1982, 43% had them in 1983 and 74% had them by '84.

Based on a May 1983 Census Bureau survey, the Employee Benefit Research Institute, Washington, estimated 4.8 million participants were eligible for the plans. Recently, it raised its estimate to at least 19 million employees.

That revised data also reveals tremendous potential for revenue lost by the Treasury Department. Treasury Secretary James A. Baker III, in his letter to Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., proposing repeal of the plans, said the government can save some \$11.6 billion in revenue through 1990 by repealing the tax-favored nature of plan contributions made after Jan. 1, 1986.

That's more than 2½ times the estimated savings projected by the Treasury Department just 10 months ago, when it projected \$4.6 billion would be saved in five years by repealing the plans.

Just looking at one large employer illustrates the tremendous growth potential — and revenue loss — of 401(k)s. In its 14-month lifetime, Shell Oil Co.'s 401(k) has ballooned to \$70 million in assets, according to Robert S. MacIntire, plan administrator for the Houston-based company.

The Treasury Department had proposed eliminating the plans in its tax-reform draft of November. But faced with a huge outcry from employers that the plans are valued retirement and savings vehicles, it

Continued on page 57

## Incentive fees for manager

# Kansas to try real estate

By Steve Hemmerick

TOPEKA, Kan. — The \$2 billion Kansas Public Employees' Retirement System will make its first move into real estate now that trustees have approved allocating 10%, or \$200 million, of its assets there.

Trustees also decided to pay incentive fees to the manager selected to handle the real estate investments — J.W. O'Connor, New York.

Some real estate experts have been critical of pension funds for paying flat fees, rather than incentive fees, to real estate advisers.

Flat fees lead to flat performance because top real estate talent won't work for fixed wages, they charge, while less talented managers will be happy to do so and sit on investments, for which they are paid periodic management fees. But others disagree.

## Terminating raises risks for insurers

By Chuck Paustian and Barry B. Burr

The growing number of pension plan terminations is placing increased burdens and responsibilities on insurance companies to provide the guaranteed annuities to pay billions of dollars of benefits.

About \$5 billion in annuities was sold for participants of terminated pension plans between May 31, 1980, and March 4, 1985, according to the Pension Benefit Guaranty Corp. In addition, terminations with liabilities totaling more than \$3 billion are pending with the PBGC.

Only a handful of insurers, particularly mutual insurance companies, dominate the business for the large terminations (those with annuities of \$100 million or more).

If terminations continue to grow at the current rate, it is possible these few insurance companies will have difficulty writing the annuities to cover the accrued benefits while still maintaining the reserve funds required by law.

(If insurance companies were to decide to allocate their capital to other lines of business, for whatever reasons, there would be fewer assets available for the annuity business, thus creating a reserve strain.

(Insurance companies are re-

Continued on page 62

Even so, many pension funds won't pay incentive fees, partly because, some consultants speculate, pension fund executives are afraid of criticism for not following the herd.

But Marshall Crowther, executive secretary for the Kansas fund, said his new adviser has "a stake" in what is done for the pension fund.

Neither Mr. Crowther nor Jerry O'Connor, managing partner of J.W. O'Connor, would explain how the incentive fees will work. Mr. Crowther said only that he believes the incentive is enough to motivate the adviser.

J.W. O'Connor was one of several real estate firms fund officials had asked consultant Callan Associates, San Francisco, to examine.

Ultimately, five finalists — including O'Connor — were selected to make presentations. Mr. Crowther said.

The Kansas state fund chose real estate investing for diversification and to provide a real return in inflationary and deflationary periods.

During the search process, the Kansas board considered investing in pooled equity real estate investments, a common practice for first-time real estate investors.

But board members decided against it because of the large initial allocation to the area and because some members have real estate expertise.

Although the Kansas fund won't co-invest, at least for now, in any O'Connor projects, it has given the firm full discretion (within some set guidelines).

It is unclear how long it will take O'Connor to put the \$200 million allocation into the real estate market.

In the guidelines on real estate investment, the Kansas board

Continued on page 63

## Late news

Continued from page 1

would close loopholes in the termination insurance program and boost the annual premium to \$8.50 per participant, starting next year.

The budget reconciliation bill, which had been passed by the Ways and Means Committee, would increase the premium to \$8 for only three years, then drop it back to the current level of \$2.60.

## Texas Teachers' loan

AUSTIN, Texas — The \$11.5 billion Teacher Retirement System of Texas committed \$42 million to a participating mortgage loan through L.J. Melody & Co., Houston, according to Joe Perrone, the fund's assistant investment officer for real estate.

The commitment brings the pension fund's allocation to real estate as a percentage of total assets to about 6%, Mr. Perrone said.

## Late money movers

FORT WORTH, Texas — The American Airlines fixed benefit fund, with \$1.25 billion in assets, has added three new managers coinciding with the company's annual pension contribution.

Barrow, Hanley, Mewhinney & Strauss Inc., Dallas, and Hotchkiss & Wiley, Los Angeles, will run balanced portfolios for the fund. Independence Investment Associates Inc., Boston, will run an equity portfolio using its amplified alpha approach, said Bill Quinn, treasurer.

MARTINEZ, Calif. — The \$445 million Contra Costa County Employees' Retirement Association has switched management of its \$48 million passively managed stock fund from the Vanguard Group, Inc., New York, to Alliance Capital Management, New York.

Betty Lanoue, retirement administrator for the Contra Costa fund, said the switch was made because the index assets had been in a mutual fund with Vanguard, and the system's trustees wanted to save on the costs of marketing fees.

The administrator also said the retirement system has hired Balch, Hardy & Scheinman, New York, to write index options or options on particular stocks within the index fund.

WESTBOROUGH, Mass. — The \$330 million New England Power Service Co. pension fund put \$23 million into a guaranteed investment contract with State Mutual Life Assurance Co. of America, Worcester.

The money came from the roll-

over of another GIC, said Donald Goodwin, manager of investment analysis for New England Power Service. The Boston office of William M. Mercer-Meidinger Inc. assisted in the selection.

DAYTON, Ohio — The \$90 million Dayco Corp. pension fund hired First Union National Bank of Charlotte, N.C., to run a \$5 million value-oriented, equity account, according to Steven M. Paul, who is director of treasury operations.

No consultant was used.

LOS ANGELES — Whittaker Corp. hired two equity managers and released two others for its employee benefit plans, according to Kenneth J. Reardon, director of employee benefits.

Whittaker hired Brignoli, Curley & Roberts Associates, New York, to manage \$5 million for the company's \$75 million defined benefit plan. The company also hired Cutler and Co. Inc., Medford, Ore., as manager for both its defined benefit plan and its \$30 million savings plan. Cutler will run \$12 million.

Mr. Reardon would not identify the released managers.

MONTPELIER, Vt. — The \$14 million Vermont Municipal Employees' Retirement System has committed \$2.5 million to the National Life of Vermont, Montpelier, for investment in National Pension Properties II fund. It is the fund's first allocation to real estate.

## Shifts at Criterion

HOUSTON — Several management and executive changes have been announced at the Criterion Group.

Michael J. Lawch joined Criterion Group as vice president-finance. He will be responsible for the financial activities of Criterion Group and its subsidiaries. Before joining Criterion, Mr. Lawch was vice president and treasurer of AMINOIL Inc.

David O. Wicks Jr. has been elected president of Criterion Investments Inc., the Criterion venture capital subsidiary, and a member of the executive committee. Mr. Wicks will continue as a managing director of Criterion Investments and senior partner of Criterion Venture Capital Partners and Criterion Venture Capital Partners, Bermuda.

M. Scott Albert has been promoted to partner of both Criterion venture partnerships. Crichton W. Brown has been named an associate with Criterion Investments.

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# REAL ESTATE DIRECTORY



Crocker Center, San Francisco, (right) was purchased by the Prudential Asset Management Co. Equitable Real Estate Group acquired an investment in Lakeside Place, Gaithersburg, Md., (below) for pension clients.



Corporate Property Investors invested in Rockaway Center, Rockaway, N.J., (below) on behalf of tax-exempt clients.



Woodland Hills Mall in Woodland Hills, Calif., (right) was acquired this year by The RREEF Funds. The Southridge Office Building located in Birmingham, Ala., (below) was acquired by Endowment and Foundation Realty Ltd. — JMB-II, a JMB Institutional Realty Corp. fund. Another JMB fund, JMB Group Trust III, acquired a 100% leasehold interest in the Sikes Senter Shopping Center (bottom) in Wichita Falls, Texas.



## Prudential leads, but gap narrows

By Alan Krauss

**N**EW YORK — The gap narrowed between Prudential Asset Management Co. and other real estate managers during the year ended June 30, a *Pensions & Investment Age* survey shows.

Prudential, with \$6.4 billion in tax-exempt equity assets, still had half again as much under management as its closest pursuer, Equitable Real Estate Investment Management, with about \$4 billion.

In last year's *P&I Age* survey, though, Prudential had more than twice the assets of its nearest competitor.

The Top Five managers of equity-oriented assets (combining real estate equity with hybrid debt) are the same as last year, but in a different order. After slipping to fourth place in 1984, Equitable is back in second this year, while Aetna Life & Casualty rose from fifth to third. The RREEF Funds was bumped to fourth from second, and Corporate Property Investors to fifth place from third.

The other managers on *P&I Age*'s Top 10 list for 1985 also are holdovers from last year.

Heitman Advisory Corp. moved to sixth place from seventh; LaSalle Advisors Inc., to seventh from 10th; Aldrich, Eastman & Walch, to eighth from ninth; F.I.A. Associates, to ninth from sixth; and Copley Real Estate Advisors, to 10th from eighth.

Results of the 1985 survey show that pension funds and other

*Continued on page 35*

a

**ACP Advisers Inc.**400 Park Ave., New York, N.Y. 10022;  
(212) 826-9700

|                                  |               |
|----------------------------------|---------------|
| Total real estate assets managed | \$350 million |
| Equity                           | \$350 million |
| Tax-exempt real estate assets    | \$0           |

As of the year ended June 30, ACP Advisers had \$350 million under management.

All of the funds were invested for foreign clients.

The firm did not manage any U.S. tax-exempt assets.

Daniele Bodini, president, and Paul Guthrie, vice president-acquisitions, are in charge of property investments. The client contact is Debra Flanz, director-new business development.

**Acquest Capital Management Inc.**300 E. Long Lake Rd., Suite 280,  
Bloomfield Hills, Mich. 48013; (313) 645-5130

|                                  |              |
|----------------------------------|--------------|
| Total real estate assets managed | \$42 million |
| Equity*                          | \$40 million |
| Mortgages                        | \$2 million  |
| Tax-exempt real estate assets    | \$34 million |
| Equity*                          | \$32 million |
| Mortgages                        | \$2 million  |
| Tax-exempt real estate clients   | 6            |

\* Combines equity real estate and hybrid debt.

Acquest Capital Management reported \$10 million committed to it from three clients for equity real estate investing for the year ended June 30.

The book value of its tax-exempt holdings, as of the same date, was \$34 million, all in direct separate accounts. Of the \$32 million under management for equity real estate, \$9 million was in cash.

The firm's equity investments are 25% in existing properties and 75% in development properties. Assets are invested 30% in light industrial properties; 40%, office properties; 15%,

hotels; and 15%, other.

The Dow Chemical Co. and Operating Engineers' Pension Fund are among the clients.

James L. Collins, chairman, is in charge of property investments. David G. Ong, president, is the client contact.

**Aetna Life & Casualty**151 Farmington Ave., MB54,  
Hartford, Conn. 06156; (203) 636-6275

|                                  |                  |
|----------------------------------|------------------|
| Total real estate assets managed | \$17,352 million |
| Equity*                          | \$3,235 million  |
| Mortgages                        | \$14,127 million |
| Tax-exempt real estate assets    | \$2,796 million  |
| Equity*                          | \$2,796 million  |
| Tax-exempt real estate clients   | 344              |

\* Combines equity real estate and hybrid debt.

As of the year ended June 30, Aetna Life received new business commitments of \$650 million from 95 clients for equity real estate and hybrid debt investments.

Of the \$2.8 billion listed under equity real estate managed for tax-exempt clients, \$242 million was for contributions committed but not yet

received; \$246 million was in cash; and the firm's property holdings had a market value of \$2.3 billion and a book value of \$2 billion.

Of the total under management, \$2.6 billion was in commingled or pooled equity funds, and \$186 million was in direct, separate equity accounts.

By asset vehicle, Aetna had \$1.9 billion in 100% real estate equity and \$890 million in hybrid debt.

All of the tax-exempt assets are invested in existing properties.

The mix by type of property is: 46% office; 19% retail; 12% R&D; 14% industrial; 5% hotel; and 4% residential.

William M. Russell, senior vice president of Aetna Realty Investors Inc., is in charge of property investments. T. Jerald Moore, vice president, is the client contact.

**AgriVest**P.O. Box 996, 500 Winding Brook  
Drive, Glastonbury, Conn. 06033;  
(203) 659-3711

|                                  |               |
|----------------------------------|---------------|
| Total real estate assets managed | \$500 million |
| Equity*                          | \$50 million  |

|                               |               |
|-------------------------------|---------------|
| Mortgages                     | \$450 million |
| Tax-exempt real estate assets | \$0           |

\* Combines equity real estate and hybrid debt.

AgriVest had \$500 million under management as of June 30, 1985. The firm had no U.S. tax-exempt clients.

Assets are invested in prime agricultural real estate. All assets are in existing properties.

George E. Schwab, president, is in charge of property investments. James B. McCandless, vice president, is the client contact.

**Aldrich, Eastman & Waltch**265 Franklin St., Boston, Mass. 02110;  
(617) 439-9000

|                                  |                 |
|----------------------------------|-----------------|
| Total real estate assets managed | \$1,680 million |
| Equity*                          | \$1,480 million |
| Mortgages                        | \$190 million   |
| Tax-exempt real estate assets    | \$1,680 million |
| Equity*                          | \$1,480 million |
| Mortgages                        | \$190 million   |
| Tax-exempt real estate clients   | 27              |

\* Combines equity real estate and hybrid debt.

Aldrich, Eastman & Waltch Inc.'s equity holdings had a market value of \$1.49 billion. There was \$250 million in debt connected with those properties.

Of the total under management, \$510 million was in commingled or pooled equity funds, and \$1.17 billion was in direct, separate equity accounts.

By asset vehicle, \$470 million was in 100% real estate equity and \$1.02 billion was in hybrid debt.

The tax-exempt assets are invested 85% in existing properties and 15% in development properties.

The asset mix by type of property is: industrial/R&D, 12%; retail, 20%; office, 65.5%; hotel, 2.5%.

Aldrich, Eastman & Waltch is the real estate investment adviser to the State Street Bank & Trust Co.'s series of closed-end funds.

The funds are collective investment funds that invest in equity and equity-oriented, tax-efficient, inflation-hedged debt instruments, with equity participation in industrial, retail and office commercial properties nationwide.

Thomas G. Eastman, principal, is in charge of property investments. G. William Helm Jr., president, is the client contact.

**AMB Investments Inc.**4 Embarcadero Center, 35th Floor,  
San Francisco, Calif. 94111; (415) 956-5100

|                                  |              |
|----------------------------------|--------------|
| Total real estate assets managed | \$30 million |
| Equity                           | \$30 million |
| Tax-exempt real estate assets    | \$0          |

As of June 30, AMB Investments had \$30 million in equities under management in taxable accounts. It had no U.S. tax-exempt clients.

Douglas D. Abbey, president, is in charge of property investments and is the client contact.

**Am Cal Co.**4730 Woodman Ave., Suite 220,  
Sherman Oaks, Calif. 91423; (818) 990-3250

|                                  |               |
|----------------------------------|---------------|
| Total real estate assets managed | \$496 million |
| Equity*                          | \$366 million |
| Mortgages                        | \$130 million |
| Tax-exempt real estate assets    | \$496 million |
| Equity*                          | \$366 million |
| Mortgages                        | \$130 million |
| Tax-exempt real estate clients   | 8             |

\* Combines equity real estate and hybrid debt.

In the year ended June 30, Am Cal gained \$90 million in new business for equity investments from three tax-exempt clients.

Am Cal had \$496 million, all in direct separate accounts, in real estate tax-exempt assets under management. Of the equity holdings, \$15 million was in cash, \$16 million was for contributions received but not invested, and the market value of properties was \$230 million. The book value of the latter was \$205 million. In addition, the firm had \$130 million in mortgages.

Of the total under management, \$366 million was in direct, separate equity accounts, and \$130 million was in separate mortgage accounts.

All of the tax-exempt assets are invested in existing properties.

The asset mix by property is 30% office; 10% industrial; 15% retail; 15% hotel; 5% warehouse; 25% residential.

# Will Your Real Estate Investment Withstand The Test Of Time?



At any given moment, many real estate investments may seem pretty solid. But what happens when you look beyond their short run return at how they perform against the assault of an ever-changing economic environment?

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In addition, our experienced team of development, architectural, construction, and finance specialists have worked with high quality properties in the thriving Southeast. This effort has produced excellent results through the economy's ebb and flow. Call Mark Coltrin, NCNB Trust Group Vice-President for details at (704) 374-8405.

\*As reported by CIDA Investment Technologies, Inc. for the period ending 12/31/84.



## Directory

Missouri State Employees' Retirement System; Hawaii Masons Pension Fund; Southeastern Electrical Retirement Fund; Carpenters Pension Fund for Southern California; and Southern California Development Foundation are among the clients.

James B. McKenna, president, is in charge of property investments. S.Q. DellaGrotta, executive vice president, is the client contact.

### American Agricultural Investment Management Co. Inc.

2603 W. 22nd St., Suite 17, Oak Brook, Ill. 60521; (312) 654-6616

|                                  |              |
|----------------------------------|--------------|
| Total real estate assets managed | \$20 million |
| Equity                           | \$20 million |
| Tax-exempt real estate assets    | \$11 million |
| Equity                           | \$11 million |
| Tax-exempt real estate clients   | 2            |

As of June 30, American Agricultural Investment Management had \$11 million in tax-exempt equity assets under management, all in commingled or pooled funds.

The book value and market value of the holdings was \$11 million. The amount of debt connected with properties was \$1 million.

All of the tax-exempt assets are invested in farmland.

The firm had two tax-exempt clients, Owens-Illinois and Teamster Affiliates.

H. Joseph Bourn, president, is in charge of property investments and is the client contact.

### Aminoff & Co.

9601 Wilshire Blvd., Suite 220, Beverly Hills, Calif. 90210; (213) 858-6700

|                                  |              |
|----------------------------------|--------------|
| Total real estate assets managed | \$60 million |
| Equity                           | \$60 million |
| Tax-exempt real estate assets    | \$0          |

For the year ended June 30, Aminoff & Co. had \$60 million in equity assets under management. It had no tax-exempt clients.

It managed \$20 million for foreign pension funds.

Gary A. Aminoff, president, and Ethan Blumenstrauch, vice president, make property investments. M.J. Segal, vice president, is the client contact.

### Angeles Institutional Advisors Inc. (formerly Angeles International Advisors Inc.)

10301 W. Pico Blvd., Los Angeles, Calif. 90064; (213) 277-4900

|                                  |               |
|----------------------------------|---------------|
| Total real estate assets managed | \$800 million |
| Equity                           | NA            |
| Mortgages                        | NA            |
| Tax-exempt real estate assets    | \$0           |

Angeles Institutional Advisors Inc. has more than \$800 million invested in real estate. There are no U.S. institutional tax-exempt clients.

All of the assets are invested in existing properties, primarily apartments, offices and shopping centers.

Richard H. Tourtelot, executive vice president-acquisitions, is in charge of property investments. Mark W. Gibello, president, is the client contact.

# b

### Bank of America Investment Real Estate

180 Montgomery St., Suite 2300, San Francisco, Calif. 94104; (415) 822-3960

|                                  |               |
|----------------------------------|---------------|
| Total real estate assets managed | \$442 million |
| Equity                           | \$442 million |
| Tax-exempt real estate assets    | \$145 million |
| Equity                           | \$145 million |
| Tax-exempt real estate clients   | 202           |

For the year ended June 30, Bank of America received new business com-

A microcomputer products and services guide for investment managers' personal computers will be featured Oct. 14.

mitments of \$1.8 million from 77 U.S. institutional tax-exempt clients for equity real estate investments.

Of the \$145.3 million in equity real estate under management for tax-exempt clients, \$17.8 million was in cash; and the firm's property holdings had a market value of \$127.5 million and a book value of \$113.7 million. The firm used \$9.5 million in debt financing for those holdings.

Of the total under management, \$83.5 million was in commingled or pooled equity funds, and \$61.8 million was in direct, separate equity accounts.

All of the total tax-exempt assets are invested in existing properties. The bank invests in office and residential properties, shopping centers, light industrial and research and development facilities.

William D. Reiss, vice president and director of acquisitions, is in charge of property investments. Jack S. Cooper, vice president and managing director, is the client contact.

Public pension funds issue Oct. 28.

### The Bankers Life

711 High St., Des Moines, Iowa 50307; (515) 147-3791

|                                  |                 |
|----------------------------------|-----------------|
| Total real estate assets managed | \$5,774 million |
| Equity                           | \$67 million    |
| Mortgages                        | \$5,687 million |
| Tax-exempt real estate assets    | \$33 million    |
| Equity                           | \$33 million    |
| Tax-exempt real estate clients   | 332             |

Of the firm's real estate holdings under management, all in equity had a market value of \$33.5 million. Those assets were in a commingled fund, and invested in existing properties. There is \$4.3 million of debt financing connected with the holdings.

Of the mortgages under management, \$4.3 billion was backing general account funding products.

Bankers Life invests in office and industrial buildings, shopping centers and well-diversified residential properties.

Ray L. Hays, associate regional director-commercial real estate, is in charge of making property investments. Dan J. Fitzgerrell, director-pension operations, is the client contact.

### The Boston Co. Real Estate Counsel Inc.

1 Boston Place, Boston, Mass. 02106; (617) 722-7190

|                                  |                 |
|----------------------------------|-----------------|
| Total real estate assets managed | \$1,239 million |
| Equity*                          | \$1,239 million |
| Tax-exempt real estate assets    | \$1,104 million |
| Equity*                          | \$1,104 million |
| Tax-exempt real estate clients   | 10              |

\* Combines equity real estate and hybrid debt.

As of the year ended June 30, The Boston Co. Real Estate Counsel received new business commitments of \$384 million from five clients for equity real estate and hybrid debt investments.

The firm had \$1.1 billion equity real estate under management for tax-exempt clients, all in direct separate accounts. Of that, \$25 million was in cash. The firm's holdings had a market value of \$1.08 billion and a book value of \$1.04 billion. There was \$136 million in debt connected with those properties.

Of the tax-exempt assets, 88.8% are invested in existing properties and

11.2% are invested in developing properties. The mix by property type is: office, 61.3%; retail, 8.3%; R&D, 5.3%; industrial, 5.3%; and mixed-use, 19.8%.

The firm's holdings are primarily in hybrid debt.

Clients include AT&T, GM, Rockwell International and Texas Teachers' Retirement System.

Mary L. Johnston, senior vice president, is in charge of property investments. Robert A. Radloff, president, is the client contact.

### Boston Financial Real Estate Advisors

225 Franklin St., 29th Floor, Boston, Mass. 02110; (617) 542-4475

|                                  |                 |
|----------------------------------|-----------------|
| Total real estate assets managed | \$3,100 million |
| Equity                           | \$650 million   |
| Mortgages                        | \$2,450 million |
| Tax-exempt real estate assets    | \$0             |

As of the year ended June 30, Boston Financial Real Estate Advisors, a new division of the Boston Financial Technology Group Inc., had \$3.1 billion under management.

# Goldman Sachs Market Leadership

## Completing \$4 billion in real estate transactions for our clients.

## In the last 12 months.

Goldman Sachs combines technical expertise, market knowledge and creativity to best serve our domestic and international clients. We offer a broad range of traditional and innovative real estate financing services which in the last 12 months included:

- Completing sales of seven bank headquarters buildings totalling over \$1 billion.
- Executing nearly \$1 billion in sales and financings of shopping centers.
- Accessing public markets worldwide by structuring new forms of debt and equity.
- Sponsoring real estate limited partnership interests for sale to our individual investor clients.
- Providing creative investment management alternatives in real estate for our pension fund investor clients.

Market leadership that Goldman Sachs clients expect. And profit by.



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Miami    Philadelphia    St. Louis    San Francisco    London    Hong Kong    Tokyo    Zurich